

Submission

No 23

PROPOSED SALE OF SNOWY HYDRO LIMITED

Organisation:

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Theme:

Summary

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From:
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Chairman of Committee,
 The attached paper discusses some long term implications of the proposed sale.

I point out in the paper that the problems that led to the proposed privatisation relate to the pricing of electricity.

In essence, hydroelectric power stations last forever, and the electricity is inevitably low cost.

Thermal power stations last only about 40 years.

At that time the furnaces and boilerplant of thermal plant become too expensive to maintain. They are only scrap.

Thermal electricity is inevitably higher cost than long life hydro.

The solution proposed by the NSW Government is to sell the Snowy.

That creates a new capital charge against Snowy Hydro electricity, thereby raising Snowy Hydro electricity costs.

I see the proposed privatisation as nothing other than an accounting device.

The privatisation provides a means whereby governments avoid involvement and responsibility for management of a major national resource.

It is cowardly in intellectual terms, and improper.

Examples of what should be done in Australia are the Bureau of Reclamation and the Tennessee Valley Authority in the US.

In the United States, the federal government, through the Bureau of Reclamation, holds responsibility for 600 dams and 58 hydroelectric powerplants.

I attach below an extract from the website of the Bureau.

I remain available if the committee wishes to discuss these matters further.

Lance Endersbee

Extract:

Established in 1902, the Bureau of Reclamation is best known for the dams, powerplants, and canals it constructed in the 17 western states. These water projects led to homesteading and promoted the economic development of the West. Reclamation has constructed more than 600 dams and reservoirs including Hoover Dam on the Colorado River and Grand Coulee on the Columbia River. ^

Today, we are the largest wholesaler of water in the country. We bring water to more than 31 million people, and provide one out of five Western farmers (140,000) with irrigation water for 10 million acres of farmland that produce 60% of the nation's vegetables and 25% of its fruits and nuts.

Reclamation is also the second largest producer of hydroelectric power in the western United States. Our 58 powerplants annually provide more than 40 billion kilowatt hours generating nearly a billion dollars in power revenues and produce enough electricity to serve 6 million homes.

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Today, Reclamation is a contemporary water management agency with a [Strategic Plan](#) outlining numerous [programs, initiatives and activities](#) that will help the Western States, Native American Tribes and others meet new water needs and balance the multitude of competing uses of water in the West. Our [mission](#) is to assist in meeting the increasing water demands of the West while protecting the environment and the public's investment in these structures. We place great emphasis on fulfilling our water delivery obligations, water conservation, water recycling and reuse, and developing partnerships with our customers, states, and [Indian Tribes](#), and in finding ways to bring together the variety of interests to address the competing needs for our limited water resources.

End of extract.

TVA: The TVA has been in operation for over 70 years, providing river and flood control, navigation, hydroelectric power, and water supplies.

It provided the basis for great advances in economic development in its region. It operates many dams, locks, and hydroelectric power stations.

It now operates 3 nuclear power stations. TVA is owned by the US Government.

*Some independent views from
Emeritus Professor Lance Endersbee AO,
an early Snowy engineer.*

Problems caused by the proposed privatisation of the Snowy Scheme:

Over the past decade or so I have looked at various possible new engineering projects to provide major inland diversions of water, similar in the magnitude of inland diversions as the Snowy Scheme. I thought that the best of these projects would be feasible and economic, certainly at the present value of water in the Murray-Darling Basin.

One project is the inland diversion of the upper Clarence River into the Darling as a pumped storage project. Another is the inland diversion of the upper Flinders River and tributaries into the MDB, with major pipelines extending southerly from the Flinders near Hughenden to the Darling near Bourke and beyond, serving towns and irrigation on the way. I considered that these projects could be funded, designed and built by governments, in much the same way as our entire public infrastructure over the past hundred years.

In that system, government authorities offered bonds at 5% or 6%. There was no lack of public subscribers, and the works proceeded with an amortisation period of 40 years or so. By these means, governments planned and built for the future. The people received services at costs which were among the lowest in the world.

All of that has now changed with the privatisation of public infrastructure. The private owners expect a commercial rate of return for public infrastructure, just the same as for shopping centres or city buildings or whatever. Taking into account the higher interest rates, together with the shorter repayment periods of 15 years or so, the effective rate of return is close to 20%. That is a dramatic change from the 5% or 6% of the past.

As a consequence, the path to privatisation now being followed by all governments in Australia has brought to an end almost all of the planning and building of the physical infrastructure of the nation. Governments now believe that there is no need for governments to plan for new physical infrastructure for water, electricity, transport and so on: They expect that the private sector will now propose, fund and build what is needed, at the higher commercial rates of return. This expectation of a higher rate of return is also reflected in the prices that governments now receive for public infrastructure when it is

sold to the private sector. This encourages the sale of public assets, and governments receive a huge injection of cash, without taxation. On the other hand, the people pay much more for the services now supplied by private firms.

A vital case is the Snowy Scheme. It was built for the nation, and paid for by the people from electricity charges. It is a monumental project that will last forever. The continued rainfall and snowfall on the mountains will enable the Snowy Scheme to provide low cost electricity in perpetuity, together with the valuable inland diversion of water, also in perpetuity. It is entirely proper that the scheme should remain in the ownership of the people, in perpetuity.

It is now to be sold to the private sector, who must recover costs from electricity charges which have to be based on commercial rates of return. Thus the people now have to pay for the project all over again, but at much higher electricity costs. It will become high cost hydro, and that was the deliberate intention of the state governments of NSW and Victoria.

The two state governments considered that the low cost government hydro electricity was competing *unfairly* with high cost coal fired thermal electricity, now in private hands, and subsidised. What is worse is that these governments decided that the privatisation should be accompanied by a reduction in power output of the Snowy Scheme, with a reduction in the volume of water diverted inland, and then proceeded to build outlet works at Jindabyne Dam for the purpose of releasing stored water into the Snowy River, all for spurious environmental reasons!

The real cause of these actions was, and is, the conflict of low cost government hydro electricity with higher cost private thermal electricity. That is an accounting matter, and certainly does not justify the privatisation of the Scheme, or the release of water into the lower Snowy River, or the reduction in power output of the Snowy Scheme. The environmental needs of the farmers and towns in the MDB for that water are far more important than those of the lower Snowy River.

Lance Endersbee 29 May 2006